Insurance Contracts Standard

Other modifications to the General model

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Topics

1. The need for change and the history of the project
2. What is an insurance contract
3. Initial measurement of insurance contracts
4. Subsequent measurement of insurance contracts
5. Modifications to General model: variable fee contracts
6. Other modifications to the General model
7. Presentation and disclosure
8. Applying the standard for the first time

Modifications to the general model

The new insurance contracts Standard modifies the accounting model to provide additional accounting models for different types of contract.

- A variable fee approach for some contracts with participation features
- Accounting requirements for reinsurance contracts an entity holds, based on the general model
- Accounting requirements for investment contracts with discretionary participation features
- An optional simplified measurement approach for simpler insurance contracts, based on the unearned premium reserve approach used in many jurisdictions

Modifications to the general model
Reinsurance

- Apply general model approach to measure fulfilment cash flows
- If, at inception:
  - CSM is positive, record a liability consistent with general model
  - CSM is negative, record an asset (not consistent)
- After inception,
  - Recognise in CSM changes in estimates of FCF relating to future service (consistent), except
  - Recognise in profit or loss those changes which arise as a result of changes in estimates of FCF of underlying direct insurance contract, and which are recognised immediately in profit or loss.

Modifications to the general model
Investment contracts with dpf

- No insurance risk present in contract
- Apply general model approach to measurement of fulfilment cash flows with modifications to:
  - Recognition date: when entity becomes party to the contract
  - Contract boundary: ends when entity has the right or practical ability to deliver cash at a present or future date
  - Coverage period: period when entity required to provide asset management services under the contract
  - Allocation of CSM: systematic way that best reflects transfer of asset management services

Modifications to the general model
Premium allocation approach

- Optional practical expedient to general model – simplified approach (Premium Allocation Approach)
- Therefore:
  - Subject to entry criteria
  - Optional to use
- Key criteria: simplified approach should 'mimic' general model

Modifications to the general model

PAA: Eligibility

Permitted if reasonable approximation to the general model, ie if:

- coverage period is 12 months or less, or
- both following apply:
  - no significant changes in cash flow estimates are likely to occur before the claims incur
  - no significant judgement needed to allocate the premium over time

Modifications to the general model

PAA: Measurement

CSM

Risk adjustment

Time value of money

Cash flows

- On initial recognition
  - Record a liability at the PV of premiums received/receivable, less acquisition costs; or
  - Record an asset as the PV of premiums receivable
- Reduce the liability for passage of time
- Reduce asset for receipt of premiums
- Recognise a liability for incurred claims (using general model)

Modifications to the general model

PAA: Measurement continued

CSM
Risk adjustment
Time value of money
Cash flows

Liability for incurred claims

- Measured consistently with the general model (with no contractual service margin)
- Discounted if material. Practical expedient 12 months
- Includes a risk adjustment

Thank You


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